Today: Federal Taxes
Next Week: Virginia Taxes and Record Keeping

TAX PREPARATION SIMPLIFIED
WHAT WILL YOU NEED?

- All your tax documents
  - New Form 1095-A for ACA insurance purchased in the Marketplace
- Federal 1040 Instructions and Pub 17
  - Pub 5157 for Affordable Care Act
  - Other specialized IRS publications as required
  - Search topic on irs.gov
- Virginia 760 Instructions
### DEDUCTION S AND EXEMPTION S

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>38</td>
<td>Amount from line 37 (adjusted gross income)</td>
</tr>
<tr>
<td>39a</td>
<td>Check: If you were born before January 2, 1950, [ ] Blind. Total boxes</td>
</tr>
<tr>
<td>39b</td>
<td>If your spouse was born before January 2, 1950, [ ] Blind. checked [ ] 39a</td>
</tr>
<tr>
<td>40</td>
<td>Itemized deductions from Schedule A or your standard deduction (see left margin)</td>
</tr>
<tr>
<td>41</td>
<td>Subtract line 40 from line 38</td>
</tr>
</tbody>
</table>
| 42   | Exemptions. (See if income is $12,525 or less, multiply by $350 by the number on line 6a. Otherwise, see instructions)
| 43   | Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- |
| 44   | Tax (see instructions). Check if any sources: [ ] Form(s) 8814 [ ] Form 4072 [ ] 0 |
| 44a  | Alternative minimum tax (see instructions). Attach Form 6251 |
| 45   | Excess advance premium tax credit repayment. Attach Form 8962 |
| 46   | Add lines 44, 45, and 46 |
| 47   | Foreign tax credit, Attach Form 1116 if required |
| 48   | Credit for child and dependent care expenses, Attach Form 2441 |
| 49   | Education credits from Form 8863, line 19 |
| 50   | Retirement savings contributions credit, Attach Form 8889 |
| 51   | Child tax credit, Attach Schedule 8912, if required |
| 52   | Educational expenses, Attach Form 8863, line 19 |
| 53   | Residential energy credits, Attach Form 8849 |
| 54   | Other credits from: [ ] 3930 [ ] 8801 [ ] 0 |
| 55   | Add lines 48 through 54. These are your total credits |
| 56   | Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- |

### PAYMENTS & REFUNDABLE CREDITS

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>64</td>
<td>Federal income tax withheld from Forms W-2 and W-3X</td>
</tr>
<tr>
<td>65</td>
<td>2014 estimated tax payments and amount applied from 2013 return</td>
</tr>
<tr>
<td>66</td>
<td>Earned income credit (EIC)</td>
</tr>
<tr>
<td>66a</td>
<td>Child tax credit, Attach Schedule 8919</td>
</tr>
<tr>
<td>67</td>
<td>Additional child tax credit, Attach Schedule 8912</td>
</tr>
<tr>
<td>68</td>
<td>American opportunity credit, Attach Form 8849, line 19</td>
</tr>
<tr>
<td>69</td>
<td>Net premium tax credit, Attach Form 8962</td>
</tr>
<tr>
<td>70</td>
<td>Amount paid with request for extension to file</td>
</tr>
<tr>
<td>71</td>
<td>Decreases social security and medicare tax withheld</td>
</tr>
<tr>
<td>72</td>
<td>Credit for federal tax on fuels, Attach Form 4126</td>
</tr>
<tr>
<td>73</td>
<td>Credit for foreign tax credit, Attach Schedule 6296d</td>
</tr>
<tr>
<td>74</td>
<td>Add lines 64, 65, 66a, and 73 through 73. These are your total payments</td>
</tr>
</tbody>
</table>

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NEW DOLLAR LIMITS

- The usual gang of suspects have been indexed for inflation
  - Standard Deduction
  - Personal and dependent exemptions
  - Phase out of Exemptions and Itemized Deductions
  - Business Mileage Rate
  - EIC Credits and Income Levels
  - Lots of others (about 17)

- Check 1040 Instructions, Pub 17, and irs.gov for specific values
PROVISIONS RECENTLY EXTENDED

- COD exclusion for principal residence
  + Form 982 and Instructions
- Qualified Charitable Distribution—QCD (Tax-free distribution from IRAs to public charities for individuals age 70½ or older)
  + 1040 Line 16a and 16b
- Adjustment for educator classroom expenses up to $250
  + Enter on 1040 Line 22
PROVISIONS RECENTLY EXTENDED (CONT’D)

- Adjustment for qualified tuition and fees
  + Enter on 1040 Line 34
  + Why is this important?
    - For low income clients, reducing AGI increases EIC
    - For clients with low/no tax liability, Life Long Learning Credit could be wasted

- Deduction for state and local general sales taxes
  + Might exceed deduction for state income tax
  + Enter qualified amount on Sch A (Sales Tax calculator on irs.gov)
  + Can increase by major purchases like a car
PROVISIONS RECENTLY EXTENDED (CONT’D)

- Premiums for mortgage insurance deductible as interest for qualified residence
  - Enter on Sch A Line 13

- Nonbusiness energy property credit
  - Same rules/limits as last year
  - Calculate on Form 5695
  - Enter on 1040 Line 53
  - $500 life-time limit on credit
NEW PROVISIONS (LESS ACA)

- Limit on Long Term Care Insurance benefits characterized as “per diem” payments
  - Calculate on Form 8853 Section C and report on 1040 Line 21
- IRS may accept certain explanations for not taking your Required Minimum Distribution
  - Report on Form 5329 Pg 2 Sec VIII
  - Write “waiver” on Line 53 and provide a note explaining why you didn’t take the RMD
  - IRS may not accept it and will send you a bill
**ACA OVERVIEW**

- Everyone must have Minimum Essential Coverage (MEC) or pay a Shared Responsibility Payment (SRP)
- If you have employer-sponsored insurance, Medicare, Medicare Advantage, Tricare (and some others) you have MEC
- If you buy insurance in the Marketplace you may be eligible for help in the form of a Premium Tax Credit (PTC)
  - You will receive a Form 1095-A
  - Family income between 100% and 400% of FPL
- If you got a PTC based on projected 2014 income and family status and 2014 actuals are different
  - You might have to pay some of it back
  - You might be eligible for more
- The 1040 is where the ACA books are balanced
MINIMUM ESSENTIAL COVERAGE

- Examples of MEC
  + Individual Insurance purchased from an insurance company
  + Medicare Part A
  + Medicare Advantage Plans
  + Tricare
  + Employer-sponsored coverage, including COBRA and retiree coverage
  + Details in IRS Pub 5157

- If you, and everyone in your household for whom you claim a deduction, has MEC, then you don’t need to worry anymore about ACA
  + Check the 1040 Line 61 box and move on
EXEMPTIONS FROM MEC REQUIREMENT

- There are 19 exemptions available, including:
  - Income below the filing threshold
  - Short gap due to Marketplace startup problems
  - Short gap due to lost job
  - Affordability
  - Religious objections
  - Incarceration

- Use Pub 5157 and Form 8965 Instruction Booklet
“BALANCING THE ACA BOOKS”

- If you and your household haven’t had MEC for every month of 2014
  + Claim any exemptions using Pub 5157 and Form 8965
  + For any month with neither MEC nor an exemption, calculate your Shared Responsibility Payment using Pub 5157 and the SRP worksheet in Form 8965 Instructions
- If you have received or are eligible for a premium tax credit
  + Use Pub 5157, Form 1095-A, and Form 8692 to reconcile PTC
- ACA can get complicated. Read the instructions carefully
SOME SENIOR-RELATED TAX ISSUES

- Filing Status
- Interest & Dividends
- Capital Gains including Sale of Home
- IRA Distributions
- Pensions
- Social Security
- Itemized Deductions
- Estimated Taxes & Penalties
FILING STATUS

- Why is Filing Status important?
- Affects:
  - Tax
  - Standard Deduction
  - Eligibility for Credits
- More than one may apply
- One of most common errors
FILING STATUS OPTIONS

- Single
- Married Filing Jointly
  - Valid if spouse died during TY
- Married Filing Separately
- Head of Household
  - Single with a qualifying dependent
- Qualifying Widow(er)
  - Spouse died during prior two years
  - With a qualifying dependent child or stepchild
  - Not a grandchild or foster child
INTEREST AND DIVIDENDS

- 1099-INT, 1099-DIV or 1099-OID
- Watch for:
  + Muni Bond interest - tax exempt
  + Treasury Bond interest - taxable
  + Savings Bond interest taxable unless used for education
  + Qualified dividends – Taxed at Capital Gains tax rate
CAPITAL GAINS

- Broker’s Statements (1099-B) changed again
- Report transactions on form 8949
- Totals go to Schedule D
- Inherited Stock (basis stepped up - except 2010?)
- Don’t forget Loss Carryover
- Capital gain tax rates are much lower
  + 0% for taxpayers in 10% and 15% brackets
  + 15% most other taxpayers
  + 20% for 39.6% high income bracket
SALE OF HOME

- 1099-S received from broker if reportable
- Can exclude $250K/$500K of gain if:
  + Main home
  + Ownership and use tests met
  + If spouse dies and house sold within 2 years, $500K exclusion applies
- Basis = Cost + Improvements
- Postponed gain? (from pre 1997 sale)
- Report net gain (if any) on Sch D
- Loss not allowed
FORECLOSURES

- If foreclosed, Form 1099-A received
  - Must report on Sch D
- If debt cancelled, Form 1099-C is received
  - Report on Form 982 to exclude from income
- Cannot claim a loss
IRA DISTRIBUTIONS

- Form 1099-R received
- Roth IRA distributions not taxable (usually)
- Traditional IRA distributions usually taxable (Code 7 in Box 7)
- Note codes and read instructions
  - May not be taxable, but:
    - May be a penalty (e.g., early distributions)
- Remember RMD’s
PENSIONS

- Forms: 1099-R, RRB-1099R or CSA-1099R
- Usually “Taxable Amount” shown in Box 2
- If not, and if contributions made:
  + Use “Simplified Method” worksheet if pension started after July 1, 1986
  + If not use “General Rule” (Pub 939)
SOCIAL SECURITY OR EQUIVALENT RRB

- Social Security
  + Reported on SSA-1099
- Railroad Retirement Tier 1
  + Reported on RRB-1099
  + Equivalent to Social Security
  + Same rules as Social Security
- Up to 85% may be taxable - use worksheet
- Note insurance premiums & tax withholdings
ITEMIZED DEDUCTIONS ON SCHEDULE A

- Medical Expenses (if > 7.5%)
- Some taxes paid
- Interest paid
- Gifts to Charity
- Miscellaneous Expenses
MEDICAL EXPENSES

- Expenses must be:
  - Qualified - see instructions
  - Un-reimbursed
  - Paid by and for taxpayer, spouse or dependents

- Expenses include:
  - Medical and dental insurance premiums
  - Long Term Care premiums up to age related limit

- But only to extent they exceed 7.5% of AGI
DEDUCTIBLE TAXES

- State and Local Income or Sales taxes
- Real Estate taxes (reported by mortgage company on Form 1098 if paid from escrow)
- Personal Property taxes (if based on value of property/car)
DEDUCTIBLE INTEREST

- Home Mortgage Interest:
  - Interest reported on form 1098
  - Points on initial loan
  - Amortized points after refinancing
  - Qualified Mortgage Insurance premiums

- Investment Interest paid
CHARITABLE CONTRIBUTIONS

- **Cash:**
  + Receipts or bank records required

- **Non-cash contributions require:**
  + Receipt
  + Form 8283 if total over $500
  + Appraisal if over $5000
  + Form 1098-C if a car (some exceptions)
  + Clothing, etc. - Must be in “good or better” condition

- **Out-of-pocket expense:**
  + Travel @ 14¢/mile
  + Tolls, parking, can be included
MISCELLANEOUS DEDUCTIONS

- To the extent they exceed 2% of AGI:
  - Tax Preparation Fees
  - Certain investment expenses
  - Other - See Schedule A Instructions

- Other Miscellaneous Deductions:
  - Gambling losses up to extent of winnings
CREDITS

- Foreign Tax Credit - form 1116 if $300/$600
- Credit for the Elderly – no one qualifies!
  - See Pub 524
- Education Credits
  - American Opportunity Credit (1st 4 years of College)
  - Life Time Learning Credit (All post secondary courses and courses to improve job skills)
- Residential Energy Credit ($500 max)
- Repayment of 2008 Home Buyers Credit
UNDERPAYMENT PENALTY

- Due if tax owed exceeds $1000, unless:

- Withholdings exceed:
  - 90% of current year tax liability, or
  - 100% of prior year tax liability, or
  - 110% of prior year tax liability if AGI is over $150,000

- Consider quarterly estimated tax payments
FINALLY, BEWARE THE AMT!

- AMT exemption amount is indexed to keep most taxpayers out of AMT situations
- Primary AMT exposure comes at high incomes, high deductions, and/or certain kinds of investments
  - Passive activity losses
  - Accelerated depreciation
  - Incentive stock options
  - Certain intangible drilling costs
- Requires a complicated form – Form 6251
TAX PREP SERVICES: BUYER BEWARE

(From the National Consumer Law Center and Consumer Federation of America)

- Most paid tax preparers are not subject to any minimum educational, training, or competency standards
  - IRS is prohibited from requiring testing and continuing education
  - Only 4 States regulate paid preparers (MD, OR, CA, NY)
  - The only tax preparers required to pass an IRS-approved test are CPAs, enrolled agents, and VITA (includes AARP Tax-Aide)

- You often cannot comparison shop the fees you may be charged
  - GAO “shoppers” found fees for same service can vary by up to 300%

- ALL forms of advanced refund payment systems result in usurious interest rates and fees (RAC, RAL, Pre-paid debit cards, all of them)

- At the end of the day, it is your tax return and the IRS will hold you responsible for filing a correct tax return
WHAT ELSE DO YOU WANT TO TALK ABOUT?